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I. STATEMENT OF POLICY

It is the policy of the Department of Children and Family Services (DCFS) to establish and support an internal audit function to assist management in the effective discharge of its responsibilities for the control of departmental resources.

Mission and Objectives

A. Mission

The mission of the Bureau of Audit and Compliance Services (BACS) is to provide independent, objective assurance services designed to add value and improve the organization's operations. BACS helps DCFS accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

B. Objectives


The primary objectives of BACS are to increase the assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition;
- Transactions are executed according to management's authority and recorded properly to allow the preparation of financial statements;
- Operating efficiency is promoted; and
- Compliance is maintained with prescribed federal and state laws and regulations and management policies.

BACS assists management by providing them with analyses, recommendations, counsel, and information concerning the activities and functions reviewed, and promoting effective controls at reasonable cost. BACS is concerned with any aspect of the activities of DCFS for which auditing may be performed as a service to management.

Organizational Structure

The internal audit function is under the supervision of the BACS Director, who reports to the DCFS Secretary.

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Authority and Responsibility

A. DCFS Bureau of Audit and Compliance Services

BACS is authorized to direct a broad comprehensive program of internal audit within DCFS. BACS is responsible for carrying out systematic reviews of DCFS operations for the purpose of advising the DCFS Secretary and/or Executive Management as to the efficiency, economy, and effectiveness of management policies, practices, procedures, and controls and to make recommendations for improvement.

BACS staff is granted full, free, and unrestricted access to any and all of the records, physical properties, and personnel of DCFS that are relevant to the functions under review. Documents and information that are provided to BACS staff during an audit will be handled in the same prudent manner as by employees who are countable for them.


BACS staff shall have no direct operational responsibility or authority over any of the activities they review. Additionally, they shall not develop nor install systems or procedures, prepare reports, or engage in any other activity that would normally be audited.

B. DCFS Managers and Employees

Managers and employees of DCFS are to support the internal audit function as a valuable element of the overall management control system. BACS staff has no authority to direct changes, DCFS managers and employees must take prompt responsive action to correct findings, deficiencies, and recommendations or effect necessary improvements identified in the audit reports. All managers are ultimately responsible for prudent resource management and compliance with governing laws, policies, plans, procedures, and regulations. BACS should work in concert to ensure that the audit efforts best serve the needs and interests of DCFS.

Independence

Independence is essential to enable BACS to accomplish its purpose. Accordingly, BACS shall not assume operating responsibilities. All audit activities, including matters of audit scope, procedures, frequency, timing, or report content, shall remain free of influence by any element in DCFS. This is required in order to permit the maintenance of an independent mental attitude that is necessary to render objective reports.

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Scope and Activities Performed

Scope of Work


The scope of work of BACS is to determine whether DCFS's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure that:

- Risks are appropriately identified and managed;
- Interaction with the various governance groups occurs as needed;
- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Programs, plans, and objectives are achieved;
- Quality and continuous improvement are fostered in the control process;
- Significant legislative or regulatory issues impacting the organization are recognized and addressed properly; and
- Opportunities for improving management control and the organization's image may be identified during audits. They will be communicated to the appropriate level of management.

Activities Performed

Activities performed by BACS to determine whether DCFS's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning effectively include:

- Assessing risk and developing audit objectives, priorities, and procedures that will ensure an effective internal control structure;

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- Reviewing the system established to ensure compliance with those policies, plans, procedures, laws, and regulations that could have a significant impact on the operations and reports of DCFS, and whether the Department has complied with such;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Reviewing the economy and efficiency with which resources are employed;
- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information;
- Reviewing specific operations at the request of the DCFS Secretary, as appropriate; and
- Reviewing the quality of performance of the external auditors and the degree of coordination with BACS.

At the request of the DCFS Secretary and/or DCFS Executive Management BACS may assist in the investigation of suspected fraudulent activities, areas of risk, or significant matters and notify management of the results.

Professional Standards

Audit staff of DCFS BACS shall govern themselves by adherence to the [*Institute of Internal Auditors' Code of Ethics*](#) and the standards set forth in the [*International Standards for the Professional Practice of Internal Auditing*](#). Practices contained in the [*Professional Practices Framework*](#) of the Institute of Internal Auditors will be adopted. In addition, BACS staff will adhere to policies and procedures of DCFS.

DCFS is committed to the professional practice of internal auditing. It is recognized that the professional development of internal auditors is essential if a progressive and qualified staff is to be maintained. Professional development will be assured through on-the-job guidance under the direction of the BACS Director, and through training courses offered by outside sources in appropriate circumstances.


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Audit Communication

Quality of Audit Communications

The quality of audit communication is to be objective, clear, concise, constructive, complete, and timely. Communications are to be accurate, free from errors and distortions, and faithful to the underlying facts. The manner in which the data and evidence are gathered, evaluated, and summarized for presentation is to be performed with care and precision. The following provides explanation of communications that are objective, clear, concise, constructive, complete, and timely:

- Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Findings, deficiencies, recommendations, observations, and conclusions must be derived and expressed without prejudice, partisanship, personal interests, and the undue influence of others.
- Clear communications are easily understood and logical. Clarity is improved by avoiding unnecessary technical language and providing all significant and relevant information.
- Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. They are created by a persistent practice of revising and editing a presentation. The goal is that each thought will be meaningful but succinct.
- Constructive communications are helpful to the audit client and the organization and lead to improvements where needed. The contents and tone of the presentation are to be useful, positive, and well-meaning and contribute to the objectives of the organization.
- Complete communications are lacking nothing that is essential to the target audience and include all significant and relevant information to support findings, deficiencies, recommendations observations and conclusions.
- Timely communications are well timed, opportune, and expedient for careful consideration by those who may act on the recommendations. The timing of the presentation of audit results is to be set without undue delay and with a degree of urgency so as to enable prompt, effective action.


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Communication of Audit Results

Audit communications should include the audit's objectives and scope, as well as applicable conclusions, and recommendations. The final communication of results should contain the internal auditor's overall opinion or conclusions, where appropriate.

Although the format and content of the audit's final communications may vary by organization or type of audit, at a minimum they should contain the purpose, scope, and results of the audit:

- Purpose statements should describe the audit objectives and may inform the reader why the audit was conducted and what it was expected to achieve, if necessary.
- Scope statements should identify the audited activities and include, where appropriate, supportive information such as the time period reviewed. Related activities not reviewed should be identified if necessary to delineate the boundaries of the audit. The nature and extent of audit work performed also should be described.
- Results may include: findings, deficiencies, recommendations, observations (if applicable), and conclusions.
 - Observations are items of evidence found during an audit that relates to the quality of the audited area. Observations do not meet the criteria of a finding or deficiency and therefore do not require a response from management.
 - Findings, deficiencies, and recommendations emerge by a process of comparing "what should be" with "what is". Regardless of whether or not they differ, the internal auditor has a foundation on which to build the report. When conditions meet the criteria, acknowledgment in the audit communications of satisfactory performance may be appropriate. Findings, deficiencies and recommendations should be based on the following attributes:
 - Criteria: The standards, measures, or expectations used in making an evaluation and/or verification (what should exist).
 - Condition: The factual evidence that the internal auditor found in the course of the examination (what does exist).

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- Citing: The actual quantity of occurrences found during the audit (how many).

The term “condition” refers to the facts determined by the internal auditor’s fieldwork, questions, analyses, verifications, and investigations. The condition is the heart of the finding, and the information about it should be sufficient, competent, and relevant. The information must be able to withstand any scrutiny. It must be representative of the total population or system under review; or if an isolated instance, it should be a significant defect. Although the auditee may dispute the significance the auditor attaches to the facts, the auditee should always be in agreement with the facts presented.


Auditees may disagree with audit conclusions and interpretations, but there should never be any disagreement with the facts on which the conclusions are based. A finding is not considered to be properly developed if the auditee can validly assert that the internal auditors did not get the facts right. Thus, conditions must be discussed early in the audit with persons in a position to know the facts. Any disputes about the facts should be resolved before a finding is reported.

Auditors are expected to review all potential audit findings with personnel responsible for the activities examined while doing audit fieldwork, in advance of the formal release of the Preliminary Audit Report. The review should begin with the person responsible for the activity and line management and proceed, as necessary, through regional or state levels of management. At a minimum, the draft should be reviewed with the person responsible for the activity and with his or her superior. Reviews may be held at levels beyond the person responsible for the activity and line management when circumstances warrant or when management deems appropriate. However, any review with a member of executive management must be approved in advance by the BACS Director.

Drafts of individual audit findings must be reviewed to the extent necessary, in whole or in part, and through the oral and/or the written work to ensure that the facts presented are accurate. The purpose of these reviews is to obtain agreement on the facts and to make sure that management understands the key statements in the report. The report is the responsibility of the auditor, not the auditee; hence, the review process is designed to ensure a proper interpretation of what the auditor has written, not what the client would prefer to have written.

The auditor must make an earnest effort to resolve disagreements of the interpretations. If all reasonable attempts at reconciling differences have been unsuccessful, the report should clearly set forth the positions of both the auditor and the operating manager for the benefit of the DCFS Secretary and Executive Management.

Conclusions are the internal auditor’s evaluations of the effects of the findings, deficiencies, recommendations and observations on the activities reviewed.

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Conclusions must be clearly identified as such. Conclusions may encompass the entire scope of an audit or specific aspects. They may cover, but are not limited to, whether operating or program objectives and goals conform to those of the organization, whether the organization's objectives and goals are being met, and whether the activity under review is functioning as intended.

Audit communications must include recommendations for potential improvements and acknowledgments of satisfactory performance. Recommendations are based on the internal auditor's findings, deficiencies and observations. They call for corrective action to existing conditions or improve operations.

A final audit report, signed by the BACS Director, is issued after the audit is completed.

II. PROCEDURES


Audit Planning

Each year the BACS Director submits the annual audit plan, which includes a summary of the work schedule, staffing plan, and time budget for the following fiscal year, to the DCFS Secretary for approval. The objective of the audit plan is to ensure that all subjects of material significance are accorded appropriate audit consideration. The audit work schedule is developed based on a prioritization of the audit universe using relevant risk factors. The DCFS Secretary must approve any significant deviation from the formally approved audit work schedule.

Audit Process

All audit work shall be planned and documented by BACS staff. Each audit assignment must be adequately planned, and shall include a review and evaluation of the operations, systems, procedures, processes, and control of the management unit as a basis for understanding and fulfilling the objectives of the review.

Successful audit projects depend upon auditors and management working together. Frequent communication with management is essential to the production of actionable audit recommendations. Therefore, BACS strives to involve management in every step of the audit.

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A. Selection of the Auditee

The selection of the auditee is the result of prioritization in the annual audit plan and special requests. Special requests may be presented by the DCFS Secretary and/or DCFS Executive Management. At their request, BACS may assist in the investigation of suspected fraudulent activities, areas of risk, or significant matters and notify management of the results. Special requests are scheduled in conjunction with existing commitments.


B. Audit Preparation

Prior to meeting with auditee management and staff, BACS staff assigned to the audit begins preparing for the review. Preparation may include the following tasks:

- Developing a tentative overall strategy for the expected conduct and scope of the audit, including the overall purpose of the audit, preliminary audit objectives, and audit techniques.
- Preparing a preliminary audit work program.
- Reviewing any previous audit files to become familiar with audit history, as well as any more recent developments that could potentially impact the current audit.
- Communicating initially with management staff to advise of the planned audit and to request documentation in preparation for the audit. Such documentation may include organizational charts, financial information, and policy and procedure manuals.
- Conducting a preliminary survey of the auditee. This survey may include interviewing personnel with administrative responsibilities, requesting and reviewing reports, and obtaining documents such as details of office operations, practices, systems plans, policies, and procedures. The information obtained is used as background information to document activities and the control environment.

C. Entrance Conference

An entrance conference is the initial conference held at or near the inception of the audit audit, with the audit team and management of DCFS agency being audited in attendance.

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The entrance conference initiates the audit fieldwork. The primary purposes of an entrance conference are to acquaint appropriate management of the audited area with the audit plans, to get suggestions for areas needing audit coverage or emphasis, and to make administrative arrangements. Auditors need certain types of information, certain types of assistance, and frequently space for working while conducting the audit. While some of the parameters will be known ahead of time, the entrance conference provides the opportunity to confirm or clarify detailed arrangements. It also provides the auditee an opportunity to influence the direction of the audit. Input from management regarding audit areas, locations to be audited, sample selection, and other similar items are crucial to the success of the audit.

The entrance conference, like any other aspect of the audit, is designed to accomplish predefined objectives. Topics to be covered during the entrance conference include:


- Planned objectives and scope of work
- Timing of the audit work
- Auditor(s) assigned to the audit
- Communication throughout the audit, including the method, time frames, and individuals who will be responsible
- Conditions and operations of the activity being reviewed, including recent changes in management or major systems
- Concerns of and any request of management
- Matters of particular interest or concern to the auditor, and
- Description of the internal auditing reporting procedures and the follow-up process.

D. Fieldwork

The type and extent of fieldwork will vary according to the scope and objective of the audit. The objective is to evaluate and appraise internal control systems and perform tests of relevant documentation.

The objective is accomplished through systems analyses and systems testing procedures. The purpose of the systems analyses is to determine the types of internal controls the management unit has implemented, and to evaluate them to ensure proper recording of business transactions, the policies for safeguarding departmental assets, and promotion of operational efficiency.

During the systems analyses and documentation phase, the auditors gain an understanding of the processing systems, significant transactions, and compliance areas as well as the quality of ongoing operations. In gathering this information, the auditors interview key personnel, inspect written documentation such as case files, office manuals and policies, and observe procedures. Significant internal control

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systems and processes are documented through narrative, data flow diagrams, and flow charts. The audit program to be followed during the audit is formalized. These materials support the findings in the written report that will follow.

The auditors select a sample of transactions to test controls identified through the systems analyses process. Audit staff use the documentation collected to determine areas for improvement in controls, as well as to identify areas for potential operational improvement. An internal control evaluation will be used to determine compliance with relevant DCFS policies and practices and external regulations. Where practicable, the more important issues that arise during the performance of the audit should be progressively discussed with the management auditee. When information gathered during audits indicates that improvement could be made in internal controls, compliance, or other areas, the auditors will make appropriate, constructive, and timely recommendations to management.

E. Preliminary Audit Report

After the fieldwork is completed, a Preliminary Audit Report is prepared for each audit. The report includes findings, deficiencies, recommendations and observations, (if applicable). The Preliminary Audit Report is discussed in detail at the exit conference if so requested by executive management.


F. Exit Conference

The exit conference is not required and is offered as a professional courtesy to management of the auditee to discuss any glaring differences between the audit results and management's response.

It is a meeting of the audit team and management to discuss audit findings and any questions or concerns related to the findings and/or audit procedures performed.

The exit conference is a formal meeting between the audit team and management. Other personnel may be invited, depending on the importance of the audit and the type of findings and recommendations proposed.

The purpose of the exit conference is to obtain the concurrence of all concerned parties that the audit report is factual and that recommendations are feasible. The exit conference is a time to negotiate the substance of the findings and recommendations and how they are presented. The auditor's primary concern is the effecting of change needed to safeguard the assets of the organization, not the specific wording of the audit report or a particular method of implementing the changes.

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Participants should understand that the Preliminary Audit Report is only a draft report and is subject to change before issuance; the final report may be somewhat different from the draft. As the auditors want to provide an accurate portrayal of conditions, the draft report is distributed so that any inaccuracies, misquotes, and/or missing facts, etc. can be brought to the auditors' attention. It is also furnished so that management can concur with the findings and recommendations or express their reasons for any disagreement.

The exit conference includes discussion of the following topics:


- Purpose of the conference,
- That the conference is designed as a discussion and that any questions should be uttered freely;
- Report format, date management's response is due, distribution, and target date of final report;
- That the discussion draft is subject to review and that the final report may be somewhat different;
- That audits are a staff function, and that the auditors are not in a position to give instructions and directions;
- That the auditors' purpose is to help improve operations, not to be censorious.

G. Management's Response

The Preliminary Audit Report is forwarded to the auditee, the DCFS Secretary and DCFS Executive Management for Management's Response. Management's Response is due to BACS by the date set forth in the Letter to Management, a date approximately fourteen (14) days from the date of the Preliminary Audit Report.

Management's Response, prepared by the auditee's management, is to contain the following:

- A statement as to whether management concurs, concurs in part, or does not concur with the individual finding and recommendations, and the reasons management concurs in part or does not concur.
- A plan for corrective action, including the status of action taken or planned to correct the internal control weakness and/or finding of noncompliance, or a statement why corrective action is not necessary.
- Factual and relevant data that is supported by sufficient and valid evidence to support contentions and conclusions.

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- Complete, concise, objective, and meaningful responses that promote an adequate understanding of the matters discussed, and that place primary emphasis on matters needing attention.

BACS must be contacted in writing (e-mail is acceptable) if an extension of the deadline is needed to prepare an appropriate response. If Management's Response is not received within the stated time frame and an extension has not been requested a final determination letter will be issued noting that management's response to the audit findings and deficiencies was not received and therefore the Preliminary Audit Report will serve as the final report, thus closing the audit.

After Management's Response is reviewed, any needed clarification or change in the Preliminary Audit Report is made. An exit conference may be scheduled and any concerns related to Management's Response are resolved to the extent practical.

A Final Determination Letter will be issued to the auditee's management in effort to communicate whether management's response constitutes amending the Preliminary Audit Report. If Management's Response does not constitute amending the Preliminary Audit Report, the Preliminary Audit Report will serve as the Final Audit Report and the Final Determination Letter will serve as official closure of the audit.


Management is responsible for deciding the appropriate action to be taken in response to reported audit findings, deficiencies, recommendations, and observations. BACS is responsible for assessing such management action for the timely resolution of matters reported.

Executive management may decide to assume the risk of not correcting the reported condition because of costs or other considerations. These decisions will be included as part of Management's Response and will be included in the Final Audit Report.

Audit Follow-Up

BACS is responsible for appropriate follow-up on audit findings and recommendations. Internal auditors are responsible for determining if corrective action has been taken and if the corrective action taken is achieving the desired results, or if executive management has assumed the risk of not taking corrective action on reported findings, deficiencies, recommendations and observations. Follow-up by internal auditors is defined as "a process by which internal auditors determine the adequacy, effectiveness, and timeliness of action taken by management on reported audit observations and recommendations, including those made by external auditors and others."

BACS is responsible for the nature, timing, and extent of follow-up. Factors that are considered in determining appropriate follow-up procedures are:

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- Significance of the reported observation or recommendation
- Degree of effort and costs needed to correct the reported condition
- Impact that may result should the corrective action fail
- Complexity of the corrective action, and
- Time period involved.

There may also be instances when the Management's Response shows that action already taken is sufficient when weighed against the relative importance of the audit observation or recommendation. In these situations, follow-up may be performed as a part of the next audit.

BACS is responsible for scheduling follow-up activities as part of developing audit work schedules. Scheduling of follow-up is based on the risk and exposure involved, as well as the degree of difficulty and the significance of timing in implementing corrective action.

III. FORMS AND INSTRUCTIONS

There are no Forms and Instructions for this policy.

IV. REFERENCES

Definitions


Adequate Control – Adequate control is present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively, and that the organization's goals and objectives will be achieved efficiently and economically.

Audit Fieldwork – Work done by the auditor at the site of the auditee or in the office necessary to complete the audit.

Audit Objectives – Broad statements developed by internal auditors that define intended audit accomplishments.

Audit Plan – A document that sets forth the units, activities, programs, or processes that might be audited; the criteria for selecting the units, activities, programs, or processes to be audited in the forthcoming fiscal year; the expected time frames for doing the proposed audits; and the auditor responsible for the fieldwork for each audit. The audit plan is approved by the DCFS Secretary.

Audit Report – A formal report that is issued by the BACS Director to the DCFS Secretary, auditee and others as appropriate. It may include audit findings, deficiencies, recommendations, and observations (if applicable) for corrective action.

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Audit Work Program – A document that lists the procedures to be followed during an audit, designed to achieve the audit plan.

Audit Working Papers – Files that contain the information obtained and the analyses made during the course of an audit. They support the findings, deficiencies, recommendations and observations (if applicable) that are included in the Audit Report. Audit working papers are the property of DCFS and are under the control of BACS. Access to audit working papers must be approved by the BACS Director.

Auditee – The unit, activity, program, or process within DCFS that is audited.

Compliance – The ability to reasonably ensure conformity and adherence to organization policies, plans, procedures, laws, regulations, and contracts.

Control – Any action taken by management to enhance risk management and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.


Control Environment – The attitude and actions of management regarding the significance of controls within the organization. The control environment sets the overall tone of management. It provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values
- Management's philosophy and operating style
- Organizational structure
- Assignment of authority and responsibility
- Human resource policies and practices, and
- Competence of personnel.

Control Processes – The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerance established by the risk management process.

Deficiency – An item of evidence found during an audit where internal controls did not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect and/or correct non-conformity on a timely basis.

Entrance Conference – A meeting of the audit team and members of the auditee's management that is held prior to the beginning of the audit work fieldwork.

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Exit Conference – A meeting of the audit team and management to discuss audit findings and any questions or concerns related to the preliminary findings and/or audit procedures performed. The exit conference is not required and is offered as a professional courtesy to management of the auditee to discuss any glaring differences between the audit results and management's response.

Finding – An item of nonconformity evidence found during the audit.

Internal Auditing – An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Controls – A pervasive network of system controls, comprised of the established policies, standards, and procedures employed to maintain effective controls over activities and operations. "Control" implies a general condition, while "controls" are methods used to achieve the condition.

Internal Control Objectives – The objectives of the controls are to assure:

- The reliability and the integrity of information
- Compliance with policies, plans, procedures, laws, and regulations
- The safeguarding of assets
- The economical and efficient use of resources, and
- The accomplishment of established objectives and goals for operations and programs.

Management's Responses – Comments prepared by the auditee's management on each of the preliminary audit findings, deficiencies, recommendations for corrective action. (See section II.G. of this policy for information to be included in Management's Responses.)

Management Representation Letter – A letter signed by auditee management that sets forth specific representations of management relative to an audit.

Observation – An item of evidence found during an audit that relates to the quality of the audited area. Observations do not meet the criteria of a finding or deficiency and therefore do not require a response from management as noted in section II.G of this policy.

Risk – The uncertainty of an event occurring that could have an impact on the achievement of objectives. Risk is measured in terms of consequences and likelihood.